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Conference of First Ministers
on the Economy
Ottawa, Ontario
November 27-29, 1978

ECONOMIC PRIORITIES
FOR CANADA



The Honourable
William G. Davis
Premier of Ontario



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RECOMMENDATIONS

- Recommendation: National income and price objectives, consistent with our medium term goals for reducing unemployment, should be established.
- Recommendation: The indexing and income averaging provisions in Canada's tax system should be reviewed in terms of their potential for contributing to Canada's anti-inflation objective.
- Recommendation: The Centre for the Study of Inflation and Productivity should be encouraged to maintain an active role reviewing and commenting on major pace-setting price increases and wage settlements in Canada.
- Recommendation: All governments and their agencies in Canada should recognize the vulnerability of wage negotiations to settlements in the public sector, and take steps to ensure that public sector settlements do not establish unwarranted norms.
- Recommendation: Safeguards on Canadian shares of technology development, investment, employment, value-added and sourcing of supply for Canadian subsidiaries of multinationals should be given due emphasis.
- Recommendation: A concerted effort must be made to encourage Canadian enterprise to participate in trade opportunities arising from the growth programs of developing countries. Appropriate export vehicles and services designed for small and medium size Canadian corporations should be an integral part of this initiative.
- Recommendation: Policies should be designed to reduce Canada's huge balance of payments deficit in the import of the services of managerial, technical and marketing know-how by utilizing the talents of Canadian graduates.
- Recommendation: A major program should be developed to redirect a substantial portion of present federal Unemployment Insurance funding to subsidize job creation and finance effective on-the-job training programs.
- Recommendation: Consideration should be given to amending Canada's capital gains tax to ensure that it is not discouraging the domestic flow of private equity investment.
- Recommendation: Ways and means should be found to increase the flow of equity investment from Canadian financial institutions.
- Recommendation: Energy sector developments should be economic, and initiated in a manner that will maximize the long term benefits to Canada without impairing the prospects for growth in other sectors.

- Recommendation: Constitutional revisions should provide, as a major objective, a strong Canadian common market in which the free and undistorted flow of individuals, goods, capital and services is assured.
- Recommendation: Constitutional revisions should provide a clarification of federal and provincial roles in economic policy so as to strengthen federal responsibilities for economic and fiscal matters of national impact and provincial responsibilities for local activities.
- Recommendation: New efforts are required to harness federal and provincial government purchasing policies to achieve national development goals.
- Recommendation: Regional development policies should be designed to accent resource, geographic and manpower advantages.
- Recommendation: A meeting of First Ministers on the economy should be held at least once a year.
- Recommendation: Ministers of Finance should be given the task of maintaining the overall economic co-ordination, planning and broad target setting exercise for consideration by First Ministers. Other federal and provincial ministers should be given the responsibility to bring forward issues requiring the attention of First Ministers.

ECONOMIC POLICY PROCESS

A central feature of the debate on economic issues over the past year in Canada has been its growing coherence and openness. The process of making economic policy is often overlooked in the advocacy of particular directions in economic management. Nonetheless, an open and public process for identifying the issues and reaching a consensus is essential to successful policy, particularly in a federal state.

Canadian federalism exists as a response to cultural diversity and regional differences in objectives, expectations and economic structure. At a minimum, the smooth functioning of federalism requires communication and consultation among governments and between governments and the public. Now, at a time of economic uncertainty, it is essential that there be co-operation, and co-ordination as well.

FIRST MINISTERS: THE ECONOMY

The February Conference of First Ministers on the economy represented an important breakthrough in economic policy formation in Canada for a number of reasons:

- . Economic initiatives were openly and publicly discussed and debated by the First Ministers of the eleven senior governments in Canada;
- . The broad outlines of a far-reaching and coherent economic strategy were hammered out. That strategy is aimed at restoring private enterprise as the engine of economic growth in Canada;
- . First Ministers set forth ambitious targets and rules that will provide strict discipline on the exercise of public policy in Canada; and
- . The private sector, through the sector task force exercise, was invited to participate in the discussion and recommendation of economic policy.

At the February Conference, Ontario accented two broad policy thrusts that ultimately shaped the final communique and the subsequent follow-up initiatives. These were:

- . That all governments attempt to contain the growth of the public sector in Canada in both expenditure terms and in regulatory activities in an effort to "free-up" resources and initiative to the private sector; and
- . That a positive enterprise strategy be designed to provide incentives and freedom to the consumer, to business and to workers to stimulate the rate of spending, investment, employment and productivity growth in the Canadian economy.

These principles form the basis upon which economic policy in Canada should be founded in both the short and the medium term.

ECONOMIC PERFORMANCE

Last February, Ontario released An Economic Development Policy for Canada. That document set out and contrasted Canada's recent performance in incomes, jobs, investment, prices, productivity and trade with the published federal targets for the medium term. Ontario was prepared to endorse the federal targets as appropriate goals for guiding First Ministers in developing a framework for national economic policy initiatives. There were, however, large gaps between past performance and future targets.

MEDIUM TERM GROWTH TARGETS

Table 1

	Annual Average Per cent	
	Actual 1973-77	Target 1978-81
GNP	3.9	5.5
Jobs	3.1	2.8
Investment	5.7	7.3
Prices	9.0	3.5 *
Productivity	0.8	2.6
Exports	3.7	6.4
Imports	6.3	5.5

Source: Statistics Canada and Finance Canada.

Note: GNP, Investment, Exports and Import growth are all expressed in real terms.

* Inflation target for 1981.

Ontario's view was that a successful attempt to meet the targets would require significant policy changes. Accordingly, Ontario mapped out a strategy designed to:

- ensure longer term price stability;
- encourage investment and improve the business climate;
- promote market expansion and competitiveness for Canadian goods at home and abroad; and
- deliver growth to all regions of Canada.

The federal targets recognized the crucial role of investment and job growth in the manufacturing sector. Manufacturing and energy investment are identified as the principal sources of growth over the medium term. Similarly, a central focus of the Ontario strategy was on manufacturing.

Ontario's special concern for manufacturing relates to the fact that 50 per cent of Canadian manufacturing jobs and output are in Ontario. The performance of Ontario's economy and the well-being of its citizens depends crucially on the capacity of the Ontario economy to generate job opportunities in this sector. But it must also be recognized that a healthy environment for manufacturing provides opportunities and benefits for all regions of Canada.

Since February, there has been some indication of Canada's economic performance in light of the actions of First Ministers. There has also been a further opportunity to evaluate the short term strengths and weaknesses of the economy and the implications for achieving the medium term targets. New policy initiatives developed from the February communique and follow-up. Many of these initiatives will not yet be reflected in Canada's economic performance. However, consumers and businessmen have become more aware of and involved in the development of economic policies, and a greater sense of certainty and confidence about the future has been achieved.

Job growth this year has been encouraging. An estimated 320 thousand jobs will be created this year in Canada, with about 126 thousand of those jobs in Ontario. Canadian incomes have grown somewhat faster than last year. This job creation and income growth reflects a marked improvement in international competitiveness and the dramatic impact that this can have on short-term

performance. Moreover, over 90 per cent of the jobs created in Ontario in the past year have been in the private sector; a tribute to the restraint efforts that have taken Ontario's budgetary expenditure growth down from a peak of 20.8 per cent in 1974-75 to 6.9 per cent this fiscal year.

The federal restraint and reallocation exercise announced this summer should multiply the gains already made. Federal spending plans for next year suggest that they will now be in line with the target of containing government expenditure growth to less than GNP growth as agreed to by First Ministers last February. In doing so, however, the provinces are being asked to carry a substantial portion of federal restraint, as payments to the provinces will be cut by several hundred million dollars.

Ontario's initiative in securing a joint federal-provincial funding of the provincial retail sales tax cut has resulted in stronger domestic sales and production, as well as lower consumer prices through this year. The recent federal move to lower the federal manufacturer's sales tax by 3 points should help to sustain this beneficial effect. Nonetheless, despite the improved performance this year, there are a number of uncertainties on the horizon for next year and beyond.

This year's overall economic performance was short of the targets for income, productivity and price performance put forward by the federal government in February. For 1979, high inflation, erosion of domestic consumer demand and the possibility of a much slower growth in the U.S. economy, may mean that Canada could fall even further behind the targets. In October, nearly 800 thousand Canadians were looking for work, almost one-third of these in Ontario. Despite the rapid rate of job creation achieved, these figures point to

the difficulties faced in absorbing into the workplace a dramatic increase in our labour force, and particularly young people looking for their first job. They also underline Ontario's special concern with policies to deal with industrial expansion.

Despite these difficulties, however, the economy is in a position to move onto its target growth path. This is evident in the encouraging increase in production, next year's investment plans by large Canadian corporations and Canada's improved cost and price competitiveness. Nonetheless, our success in achieving these goals depends crucially on the maintenance of an overall policy focus on economic management and the restoration of a climate of confidence.

For the medium term, therefore, Ontario is of the view that economic initiatives should build on the progress made by First Ministers last February in putting forward a series of consistent and comprehensive policies. Priority should now be given to actions which will:

- . ensure continued progress toward reducing the underlying rate of inflation in Canada;
- . improve marketing capabilities and initiatives to gain access to foreign markets and, in particular, new markets in the rapidly growing Third World countries;
- . provide incentives to speed the integration of a rapidly growing and highly educated work force into productive employment;
- . maximize the flow of domestic savings into equity support of Canadian entrepreneurs; and
- . encourage the development of a truly national economy within Canada.

CANADA'S MEDIUM TERM PRIORITIES

INFLATION

In a country as open to international trade and investment flows as Canada, price stability is not a separate objective from full employment. Canada's inflation experience of the early seventies, culminating in a substantial increase in unemployment and depreciation of the value of the Canadian dollar, bears witness to the importance of maintaining an appropriate anti-inflationary environment. Attainment of the medium term growth and employment targets will be critically dependent on achieving the wage and price objectives.

Restraining nominal income increases to levels comparable with those of Canada's major trading partners is the other side of the cost equation for ensuring international competitiveness. Price increases emanating from dollar depreciation, crop failures and energy shortages imply that society is less well off in real terms. Moreover, Canada's overall productivity performance remains sluggish. Paying higher money incomes in futile attempts to offset these higher costs, without real improvements in our productivity performance, can only lead to further inflation, further dollar deterioration and a further decline in real incomes.

Recent experience in Canada, the United States and other industrialized countries indicates that the nature of the underlying causes of inflation has been changing. Large relative price shocks in food, energy and imports coupled with institutionalized price and wage setting rules (cost-plus pricing and indexing, for example) designed to pass on cost of production or cost of living increases result in successive rounds of generalized price increase. Even monetary restraint may not be effective in slowing this process dramatically. Slack market conditions

often do not impact on either the institutionalized rules for wage and price setting or the underlying supply shortages that may have first triggered the process (e.g. crop failures). Moreover, unemployment that results from large numbers of new entrants, in contrast to increased lay-offs, does not have the same restraining effect on wage demands of employed workers. In short, slack markets and monetary restraint alone are not assurance against further inflation.

Our major competitor, the United States, has recognized these issues, and, in addition to pursuing monetary and spending restraint, has embarked on an ambitious and novel program to influence wage and price behaviour in both the public and private sectors. Canada's medium term employment and price targets will be in serious jeopardy if the United States achieves relative success in this program.

Thus, Ontario remains concerned about the performance of wages and prices and our ability to meet the medium term targets.

Recommendation: **National income and price objectives, consistent with our medium term goals for reducing unemployment, should be established.**

Restraining nominal income gains below increases in consumer prices, when these prices have been rising because of factors originating outside Canada, is essential to our economic well being. It should be recognized, however, that Canada's tax system provides some relief to Canadians whose incomes do not rise as fast as inflation. This benefit flows from the inflation indexing of the tax system and should not be overlooked in making income demands.

ANTI-INFLATION TAX INDEXING EFFECT* Table 2

	Gross Income		Percentage Average 1979/1978
	1978	1979	
	\$		%
<u>Case 1:</u>			
. Before tax	14,000	14,840	6.0
. After tax	11,883	12,659	6.5
<u>Case 2:</u>			
. Before tax	14,000	15,680	12.0
. After Tax	11,883	13,245	11.5

* Married taxpayer, one income earner and two children under age 16; gross income excludes family allowances. An inflation indexing factor of 9.0 per cent applies for 1979.

Note: For purposes of focusing the illustration on indexing, only those personal exemptions subject to indexing are considered in computing taxable income. The impact of the federal tax reduction, child tax credits and the Ontario tax credit system is ignored.

Source: Ontario Ministry of Treasury and Economics.

The table above shows how an average taxpayer whose gross income rises next year by six per cent will, because of indexing, find his after-tax income rising by 6.5 per cent. Conversely, the tax system imposes some penalty on individuals whose income growth exceeds the indexing factor. Overall, the benefits of indexation in protecting the taxpayer against inflation in the tax structure are substantial -- some \$1.6 billion will be returned to taxpayers from federal and provincial governments in 1979. It is possible, moreover, that the distribution of inflation compensating benefits could be skewed more dramatically to benefit those whose incomes do not rise as fast as inflation.

Recommendation: The indexing and income averaging provisions in Canada's tax system should be reviewed in terms of their potential for contributing to Canada's anti-inflation objective.

Critical to achieving post control anti-inflation objectives will be the ability to maintain public confidence that those groups with significant economic power will not touch off further attempts to "catch-up", "protect" or "augment" their incomes at the expense of others. Accordingly, there is concern that Canada's new inflation monitoring agency, the Centre for the Study of Inflation and Productivity, has not adopted a high public profile. That agency, in its educative function, must publicize not only those settlements or price increases which are excessive but also point to those settlements showing commendable restraint.

Recommendation: The Centre for the Study of Inflation and Productivity should be encouraged to maintain an active role reviewing and commenting on major pace-setting price increases and wage settlements in Canada.

Wage settlements involving a prominent group of government employees often set the standard for settlement in other sectors. The importance of the demonstration effect of wage settlements in the public sector was recognized by First Ministers at the February Conference. It was concluded that it was vital, as the Canadian economy moved out of controls, that wage increases for public employees not lead those in the private sector.

In this regard, the recent federal government settlement with the outside postal workers seriously jeopardizes the commitment to wage and price restraint. Indeed, the Economic Council's monitoring agency notes of this settlement that:

If the private sector and the rest of the public sector were to follow the pattern of this settlement, with rates of increase a couple of points above the CPI, and an acceleration of rates of increase in the latter stages of a contract, it would in our judgement be extremely difficult to bring down the rate of inflation in this country.

Recommendation: All governments and their agencies in Canada should recognize the vulnerability of wage negotiations to settlements in the public sector, and take steps to ensure that public sector settlements do not establish unwarranted norms.

EXPORTS

The federal targets put a heavy emphasis on a strong export performance in the medium term. Declining population growth in Canada implies that domestic demand will not be growing as strongly as in the past. Consequently, much more attention is directed at the external trade sector as a potential source of economic growth. But just as the demographics indicate modest growth in Canada, so too is it the situation in other industrialized countries. The competition for markets and for investment can be expected to intensify. Indeed, it is already doing so; at the same time that the world is moving closer to general tariff reductions in the current GATT negotiations, there has been an increase in non-tariff barriers by most countries to protect domestic markets.

Nonetheless, should Canada's traditional trading partners in the industrial world embark on a steady expansionary course they would provide considerable stimulus to the export sector. Additionally, the task of attaining the strong growth targets might be facilitated by the restored competitiveness brought about by a depreciated dollar and slower rising domestic costs.

It would be risky, however, to assume the most favourable set of circumstances. In fact, the potential for intense competition combined with a less than robust industrial expansion abroad, suggest that top priority should be given to a strategy for maximizing the chances of success. Analysis of Canada's trade structure and shifts in the international economy indicate that the essential ingredients of any strategy for the medium term and beyond are:

- . an emphasis on marketing approaches and intergovernmental negotiation to penetrate non-price barriers in industrial markets; and
- . cultivation of new markets for manufactured goods, tourism and technical services in rapidly-growing developing economies.

In February, the Ontario government made the following recommendations:

- . The federal Enterprise Development Program (EDP) should focus its grants on international marketing initiatives such as test marketing and start-up costs for sales outside Canada.
- . The EDP should also develop specialized marketing services to assist Canadian manufacturers to break through complex government procurement regulations and to deal with less developed and state trading countries; and
- . Trade sensitive industries should not be restricted from mergers by either the Competition Act or FIRA.

While some useful first steps have been taken by the Export Development Corporation in easing export financing impediments, much more needs to be done to improve access to both traditional and new markets. For maximum benefit, export initiatives must shift Canada's trade structure toward upgraded and finished products.

Recommendation: Safeguards on Canadian shares of technology development, investment, employment, value-added and sourcing of supply for Canadian subsidiaries of multinationals should be given due emphasis.

Recommendation: A concerted effort must be made to encourage Canadian enterprise to participate in trade opportunities arising from the growth programs of developing countries. Appropriate export vehicles and services designed for small and medium size Canadian corporations should be an integral part of this initiative.

MANPOWER

In the medium and long-term, Canada must compete in the high skill-intensive range of the industry spectrum. Low wage competition from developing countries and the nature of international market growth opportunities provide little option. This requires that Canada achieve high productivity growth for both labour and capital.

The well documented inefficiencies of Canada's capital stock and, correspondingly, of its productivity can be corrected by wider market access to achieve economies of scale. Improved productivity depends on the structure of the industry, on marketing strategies and their effectiveness, and on strategic financial backing. Indeed, productivity on the assembly line often depends on the effectiveness of the activities of the head office.

The most profitable enterprises with the most rapidly growing, yet secure, work forces are those characterized by high skill intensity in both white collar and blue collar functions (e.g. technical, managerial, marketing, financial and industrial trades personnel). Most multinational enterprises are characterized by these features, as are the most dynamic of small enterprises. These are "knowledge-intensive" organizations. Yet Canada has a huge and growing balance of payments deficit, over \$1.3 billion in 1977, in its import of the services of managerial, technical and marketing know-how. It also has a huge and growing deficit in the import of high-skill or knowledge intensive goods.

It is in these "knowledge-intensive" activities, therefore, that much can be accomplished. There are problems in financing such activities which must be handled through capital markets; there are also problems of inducing both domestic and foreign owned corporations to undertake more "high-skill" activities in Canada. Nonetheless, the need to overcome these obstacles is clearly evident. Not the least reason for this is a growing labour market imbalance for college and university graduates.

Last February, Ontario recommended improved incentives for Canadian employment in research, design and development. Since then a number of important new initiatives by both the federal and provincial government have

been taken. Nonetheless, it is important to widen understanding and support of the range of human skills and knowledge necessary to make a successful innovation. That is why Ontario included the essential design function in its proposals for improved incentives.

Recommendation: Policies should be designed to reduce Canada's huge balance of payments deficit in the import of the services of managerial, technical and marketing know-how by utilizing the talents of Canadian graduates.

While many skills may be in short supply, youth, in particular, face increasing difficulty in obtaining employment, primarily because of a lack of marketable skills. A comprehensive manpower strategy is required to bridge the gap between unemployment and skill shortages. Scarce public funds required to cushion short-term unemployment should also focus on increasing the long-term employability and skills of the unemployed. Moreover, such a redirection of funds, in underwriting the expansion of skilled industrial manpower, will be directly linked to an industrial growth strategy that promotes the development of indigenous technological capabilities and of internationally competitive industries. Ontario's "Skills for Jobs" conference, held in June, concluded that more flexible means were required to assist youth in the acquisition of skills.

Last February, First Ministers agreed that priority should be placed on developing more innovative uses for Unemployment Insurance funds to provide productive employment opportunities. Recent changes to the federal employment strategy have resulted in a modest program to rechannel only \$40 million, from the more than two billion dollars the federal government spends annually on subsidizing the unemployment insurance fund, towards encouraging private sector jobs for young people.

Recommendation: A major program should be developed to redirect a substantial portion of present federal Unemployment Insurance funding to subsidize job creation and finance effective on-the-job training programs.

INVESTMENT

The development of indigenous entrepreneurship in Canada requires the effective utilization of Canadian savings to support innovative activities. However, as the Royal Commission on Corporate Concentration has recently pointed out, there is tremendous difficulty for small and medium sized Canadian companies to get equity financing. Indeed, in the past several years there has been a substantial and worrisome increase in the debt-equity ratios of Canadian corporations. In an environment of high interest rates the prospects for improved investment are significantly dampened.

In response to tax incentives, Canadians place most of their savings in interest bearing instruments of financial institutions: bank deposits, trust company GIC's, RRSPs, RHOSPs, pension funds and life insurance. This institutionalization of savings has resulted in a conservative approach to investment financing. The Royal Commission on Corporate Concentration noted that the impact of the 1971 tax changes, "... has been to shift emphasis from seeking capital gains to investment in tax-sheltered or tax-free situations". This has constrained opportunities for developing indigenous Canadian entrepreneurship.

Recommendation: Consideration should be given to amending Canada's capital gains tax to ensure that it is not discouraging the domestic flow of private equity investment.

Recommendation: Ways and means should be found to increase the flow of equity investment from Canadian financial institutions.

Faced with an uncertain energy supply picture, Canada has mounted a massive exploration and development effort. Current optimism, however, about an improved domestic outlook for crude oil and natural gas supplies should not be allowed to breed complacency.

Last February, First Ministers identified a number of priority energy projects. Many are scheduled for the 1980's and they could have favourable impacts on the economy through investment, job creation and stimulus to supplying industries.

Since these projects will have a heavy capital bias, and therefore may cause displacement of investment in other important sectors of the economy, care must be taken to assure that they are proceeded with on sound economic grounds, and on a schedule which is not premature.

Recommendation: Energy sector developments should be economic, and initiated in a manner that will maximize the long term benefits to Canada without impairing the prospects for growth in other sectors.

NATIONAL MARKETS

Essential to Canada's economic future is the ability to overcome regional tensions and conflicts. A fundamental part of those tensions arises from the distribution of the burdens and the benefits of maintaining a single national economy - of maintaining a customs union of separate regions with a single national identity and purpose. Yet, the ebb and flow of economic activity, changing patterns and rates of regional economic growth, often serve to heighten these tensions and threaten the commitment to a common market and a common purpose.

With the meetings of First Ministers on the economy and the constitution, important steps have been taken to establish the broad outlines of a national development program. If, however, Canadians are to meet the challenges of fierce international competition, and to maximize national and regional employment and income potential, then it is absolutely essential that a free, undistorted flow of goods and services, of workers and of capital, between the various regions of this country be maintained. Protectionism and restrictions on mobility within the Canadian market are the surest ways to cripple efforts to be internationally competitive.

The balkanization of the Canadian economy along narrow provincial or regional lines represents an enormous threat to producers who require large scale production to achieve international levels of efficiency. Moreover, it represents lost opportunities for Canadians at the forefront of dynamic, innovative, high technology industry -- industries where ultimately we must compete if we are to avoid the quagmire of competition from the low wage, low skill industries of developing countries.

Recommendation: Constitutional revisions should provide, as a major objective, a strong Canadian common market in which the free and undistorted flow of individuals, goods, capital and services is assured.

Recommendation: Constitutional revisions should provide a clarification of federal and provincial roles in economic policy so as to strengthen federal responsibilities for economic and fiscal matters of national impact and provincial responsibilities for local activities.

Government purchasing policy is one area where Canadians must not allow narrow provincial interests to destroy opportunities to build world scale industries. Governments are major purchasers of goods and services in the economy. The public sector in Canada has accounted for roughly 16 per cent of

all gross fixed capital formation for the past seven years. This is an enormous development tool that can be used for the benefit of all Canadians. It is one which has been used with devastating effectiveness by the Europeans, the Japanese and the Americans.

Recommendation: New efforts are required to harness federal and provincial **government purchasing policies to achieve national development goals.**

An efficient transportation system is essential to a free flow of goods, to bring people and markets closer together. The overwhelming need for the linking bonds of an integrated transportation system has been with Canada since confederation - indeed, beyond that even to the earliest fur trading days on this continent. Now, energy scarcity makes the construction of an integrated, energy efficient transportation system a national imperative.

The vast distances of domestic and foreign markets make delivery times and reliability critical to capturing and holding those markets for Canadians. Transportation is key; without it Canadian industry is locked out of domestic and world markets. It is long past the time when the federal government should have fashioned the structure of transportation rates and systems that will open the doors.

The free flow of goods depends, not only on having an efficient transportation structure in place, but also on the absence of government restriction. While Canada's constitution prevents tariffs against interprovincial trade flows, there are other barriers to the free flow of goods, people and capital. A host of regulatory actions and agencies exist within both the federal and provincial jurisdictions that retard mobility; for example, in labelling

policies, marketing boards, and product standards. Moreover, differential provincial tax and subsidy arrangements can be used to approximate the effects of a tariff. Efficiency demands a harmonization of regulatory and tax policies.

Ontario based financial institutions and the savings of Ontario citizens will continue to be instrumental in development in all parts of Canada. There is, however, a philosophy held in some quarters that financial institutions should reinvest all the savings raised in a province in development projects within that province. That is a dangerous and divisive concept, and one that Ontario does not accept.

Ontario has concerns about the efficiency and national interest of the process of recycling petro dollars within Canada. The assets of the Alberta Heritage Fund are in excess of 3.3 billion dollars and increasing at over 1 billion dollars per year. The forced savings implied by this fund have impacted adversely on short-term employment and price objectives in Canada. The economy has paid a heavy price for the delays in recycling this fund towards investments which encourage the development of indigenous entrepreneurs and the long-term benefit of all Canadians.

Labour markets are another area where there is a need to rationalize and harmonize provincial and federal policies to encourage greater interprovincial mobility of skilled and professional manpower. The federal unemployment insurance program has, in various ways, contributed to the immobility problem, particularly in high unemployment regions. Similarly, various provincial regulations on certification of skilled tradesmen have reduced mobility, despite the important contribution of the Red Seal Program to improving interprovincial certification procedures.

Impediments to the free flow of goods, people and capital involve sensitive issues. Slow economic growth and high unemployment have contributed to a growing inclination toward protectionism and other forms of "beggar thy neighbour" policy. Recently in Canada, such practices have been experienced in tax policies, government procurement, mining development, occupational licensing, construction permits and in language policy. These are destructive not only of the economy, but also of goodwill and, indeed, Canadian society.

The debate on the allocation of economic activity in Canada and the substantial regional disparities this has often created has tended to ignore the major contribution of Canada's richer provinces to fiscal redistribution within the country. In recent years, the question of fiscal imbalances has gained greater attention in the debate about the financial gains and losses of Confederation. Ontario made its contribution to this debate in a Budget Paper published with the Ontario Budget in 1977. This study confirmed that the Canadian federal system is working to redistribute resources from the rich to the poorer provinces to the ultimate benefit of all Canadians.

What this study also demonstrates is the need to maintain strong economic performance and revenue generating capacities in the richer provinces. Regional economic development programs should be focused on regional strengths and not attempt to distort economic activity to the detriment of the entire country.

Recommendation: Regional development policies should be designed to accent resource, geographic and manpower advantages.

CONSULTATION

Consultation, co-operation and co-ordination are the bywords of successful economic policy. The fundamental reasons are well known:

- . The most fundamental problems are often national in scope and require a co-operative national response.
- . Economic interdependence often requires a co-ordinated federal approach.
- . Where labour mobility and capital mobility are so essential to efficient functioning of markets, it is imperative that governments co-operate to reduce and avoid barriers to that movement.
- . The basic structural diversity of provincial economies requires that national policy be sensitive to differential impacts on the various regional economies.
- . The attempt to co-ordinate private and regional interests with public and national interests can only be successful if economic policy is understood, if there is confidence in it and if there has been open and free participation in its formation.

Nonetheless, in recent years, despite the rapid increase in the scope and frequency of intergovernmental meetings, disharmony on the economic policy front was growing. This increasing lack of co-ordination and direction was compounded by:

- . Entanglement of different governments trying to do the same thing;
- . Encroachment as governments infringed on each other's activity; and
- . Constitutional grey areas where there are loosely defined divisions of powers.

The ensuing multiplicity of regulation and red tape confused the private sector, caused delay and misunderstanding, and sapped the vitality of the Canadian economy. Moreover, there has, until recently, been little overall direction or strategy in the formation, design or implementation of national economic policy. As a consequence a major complaint of both foreign and domestic investors was the disharmony of Canadian economic policy at various governmental levels.

The Conference of First Ministers in February was an important first step in reaching a consensus on a coordinated national economic strategy for Canada. Given the importance of the emerging federal-provincial economic policy process, it is therefore important to refine and improve it.

Recommendation: A meeting of First Ministers on the economy should be held at least once a year.

Recommendation: Ministers of Finance should be given the task of maintaining the overall economic co-ordination, planning and broad target setting exercise for consideration by First Ministers. Other federal and provincial ministers should be given the responsibility to bring forward issues requiring the attention of First Ministers.

